Exxon Mobil, BP May Get Reprieve on Stalled Alaska Gas Pipeline

By Gene Laverty

Nov. 6 (Bloomberg) -- Nowhere in the world do oil companies pay taxes on oil or gas before it is pumped from the ground. Exxon Mobil Corp., BP Plc and ConocoPhillips want to make sure Alaska doesn't become the first.

Voters there will decide tomorrow whether to impose a $1 billion-a-year tax on natural gas that the three companies own and have left in the ground. The ballot question is meant to force them to build a $25 billion gas pipeline to the lower 48 states that was proposed three decades ago.

Voters already have shown their frustration by defeating Republican Governor Frank Murkowski in a primary in August after his efforts to get the pipeline under way failed. Even so, the oil companies may win the day. Their campaign ads have helped turn a 7-percentage-point deficit for ``no'' votes in a poll less than a month ago into an 18-point lead in a late-October survey, according to Ivan Moore, an Anchorage-based pollster.

``A few months ago, Alaskans were in an anti-establishment mood,'' said Moore, 42, whose Ivan Moore Research has been tracking sentiment about the proposed tax for more than a year. ``Then the companies basically said the tax would be a huge, economy-chilling nightmare that would turn Alaska into a wasteland.''

The oil companies have been unwilling to build the gas pipeline on their own and have rejected proposals by other companies, according to Eric Croft, the Democratic state representative who sponsored the initiative. Calgary-based TransCanada Corp. and Warren Buffett's MidAmerican Energy Holdings Co. both failed to get shipping commitments when they proposed Alaska gas pipeline projects.

Penalty

``If you're going to get a gas line built, you've got to do two things: Make delay expensive and make sure that building the line is profitable,'' Croft said. ``We're talking about $1 billion a year as a penalty for them warehousing our gas.''

Some of the tax would be refunded once gas begins to flow, Croft said.

A portion of the profit from the gas would be paid to Alaska's treasury, as is the case now with oil. This year, the state will pay every adult Alaskan $1,106.96 from its energy fund.

The plan to ship Alaska's gas south was proposed in the mid- 1970s by a group of pipeline companies. The reserves were held then by Exxon Corp., Atlantic Richfield Co. and Phillips Petroleum Co. -- predecessors to the three now involved.

Feasibility Study

A route was surveyed and rights-of-way acquired before the plan was shelved because of low gas prices. The oil companies spent $100 million for a feasibility study in 2001 and concluded it would yield a return on investment of about 10 percent, less than the 15 percent they sought.

Benchmark New York natural-gas futures soared to a record $15.78 per million British thermal units in December 2005. While they have fallen by about half since then, prices are still four times as high as the average through the 1990s.

Even so, the cost of new energy facilities has also soared, with steel and labor in short supply.

A tax on reserves is ``inherently unfair and without merit,'' Exxon Mobil said in a statement. ``Exxon Mobil has been diligently working for over 30 years and spent more than $150 million to commercialize Alaska North Slope gas,'' according to the statement.

Murkowski

Murkowski had negotiated a tax plan with the companies designed to make it more profitable to produce Alaska's gas. The legislature, controlled by his fellow Republicans, rejected his plan three times, calling it too generous. The initiative was placed on the ballot after 46,722 voters signed petitions.

``There's a very real sentiment against the oil companies, and that's unusual, seeing as we live off them,'' said Gerry McBeath, a political science professor at the University of Alaska in Fairbanks.

Any tax probably won't be imposed quickly should the initiative pass, McBeath said. ``It will go to court right away, and the issue could be litigated for 10 to 20 years.''

Moore's statewide poll of 500 Alaskans, taken Oct. 28-29, showed that 58 percent said they would vote against the tax, 29.5 percent were for it, and 12.5 percent were undecided. The results are accurate within 4.4 percentage points, Moore said.

A similar poll Oct. 7-8 showed the initiative would pass by a 7 percentage-point margin, he said.

The oil companies have spent more than $1.6 million to sway voters, according to campaign finance reports.

Ad Campaign

A full-page newspaper ad paid for by Houston-based ConocoPhillips promises lawsuits and delays that will cost Alaska jobs should the initiative pass. More than $1 million of the companies' spending has gone to AlaskaFirst.org, a political action committee registered in late September.

Our Gas, Our Decision, the only registered group supporting the tax, has raised less than $5,000, according to the Alaska Public Offices Commission.

For now, the cost of the project probably dooms it, regardless of what Alaska's voters or politicians do, according to Ron Denhardt, an analyst with Strategic Energy and Economic Resources in Winchester, Massachusetts. ``If Alaska gas was economic, it would come on.''